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## Seattle City Employees' Retirement System

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September 21, 2010

RE: Early Retiree Reimbursement Program (ERRP)

Dear City of Seattle Employee & Retiree – 55 to 64 Years of Age:

As you may know, the City's initial application for participation in **the federal Early Retiree Reimbursement Program (ERRP)** has been accepted. Some active employees and retirees have asked how this might affect their coverage and benefits. Here's some basic information.

The U.S. Department of Health and Human Services recently approved the City as eligible to file certain "early retiree" claims for reimbursement under ERRP, which:

- Seeks to encourage employers to initiate or retain coverage for retirees between the ages of 55 and 64, who generally do not qualify for Medicare. The ERRP is focused on maintaining early retiree access to coverage, and is not geared to necessarily lowering the cost of coverage for persons in that age group.
- Will provide 80% reimbursement on certain medical claims ranging in cost from \$15,000 to \$90,000 – not higher or lower.
- Addresses medical claims involving covered early retirees and their spouses, surviving spouses, and dependents – not others.
- Will provide reimbursements, until a national allocation of \$5.0 billion is exhausted or 2014, whichever is earlier.
- Has not provided the City any reimbursements yet. The Personnel Department, which manages City medical plans (including the retiree medical plans), will actually file the first batch of covered medical claims near the end of the year.

There are several critical issues to keep in mind about any potential reimbursement:

1. **Getting the money is not guaranteed.** The reimbursements will be paid by ERRP on a first come-first served basis, strongly suggesting that the City's chances of getting federal reimbursement will depend on the number and size of the reimbursement requests received by ERRP before ours.
2. The program's rules do not encourage employers to use the reimbursements for the exclusive benefit of early retirees. The monies can be used for the benefit of all subscribers and by the plan sponsor to cover cost increases – in our case, focusing only on the active plans in which our early retirees can be covered. Our approved application meets program rules.
3. Based on historic claim data, we have estimated that if we are successful in receiving **any reimbursement**, it **will amount to less than 2%** of all annual premium contributions from the City and plan participants.
4. The ERRP approval recognizes that we will adhere to regular City policies and practices for any reinsurance reimbursement, as follows:
  - a. ERRP reimbursement(s) will be deposited in the City's Health Care Subfund (which is separate from the City's General Fund, the City's Retirement Trust, and other targeted sub-funds of the City).
  - b. ERRP reimbursement will be used to offset some of the City's projected (future!) medical benefits cost increases and reduce or offset future increases in required premium contributions on the part of all subscribers in our active plans, because the active medical plans are funded in relation to average costs for all our subscribers. (Early retirees now enjoy an implicit subsidy from active employees and the City as their claim experience is combined with the claim experience of active employees and used to derive average rates for funding purposes.)
  - c. Any ERRP reimbursements will be used, most likely in the plan year following receipt of the reimbursement, because we don't normally change eligibility rules, benefits or contribution requirements midyear.

- d. We will **NOT** be issuing premium refunds to individuals, holding premium holidays for individual participants (during which premiums would not be collected) or reducing the in-force premium contributions required of plan participants.

Two last comments: 1) Persons in the age 65 and over (Medicare-eligible) retiree plans will not see any ERRP reimbursement impact, because those plans are totally separate and dedicated to only that group. 2) Additionally, because they are not in City medical plans, active IAFF Local 27 plan members will not be affected.

If you have any questions on the ERRP program's affect on the City, please contact Florence Katz, Director, Employee Health Services at 206-684-7957.

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